June 12, 2019

The Honorable Chuck Grassley
Chairman
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Ron Wyden
Ranking Member
Senate Finance Committee
219 Dirksen Senate Office Building
Washington, DC 20510

Re: Senate Finance Committee’s Taskforces on Temporary Tax Policy and the New Markets Tax Credit

Dear Chairman Grassley and Ranking Member Wyden:

Thank you for your efforts to address expired and expiring tax provisions, including the New Markets Tax Credit. I am writing on behalf of Opportunity Finance Network, a national association of more than 270 Community Development Financial Institutions (CDFIs) that are investing in opportunities that create affordable housing, vital community services, and entrepreneurial capital in rural, urban, and Native communities. OFN members have cumulatively provided more than $65 billion in responsible lending to help low-income, low-wealth, and otherwise disinvested individuals and communities nationwide. As these taskforces begin their work in reviewing each of these provisions, OFN strongly recommends that the New Markets Tax Credit (NMTC) Program is preserved and made permanent.

The NMTC is leveraged by our members to attract private investment to important community and economic development projects. Cinnaire, a nonprofit CDFI and OFN member, used an $11.5 million NMTC allocation to support the new construction of a 350,000 square foot manufacturing facility in rural Michigan for EJ Group, Inc. EJ Group has been located in Michigan since 1883 and is one of the leading employers in the region. Without the NMTC, it would have been nearly impossible for them to finance the $125 million new facility which will retain and create jobs in Northern Michigan. Another OFN member, the Florida Community Loan Fund, has used an $8.4 million NMTC allocation to help finance a new teen center in Belle Glade. Belle Glade is one of the most impoverished communities in Florida with high unemployment, gang and drug activity and a violent crime rate that is four times the national average. The new facility will be used by the Boys and Girls Clubs of Palm Beach County to provide academic enrichment programs, technology-based career training, mentoring, and nutrition classes to 900 teens a year.

As you are aware, the NMTC is set to expire at the end of this calendar year without Congressional action. The NMTC has provided over $90 billion in total financing and created more than 1 million jobs since its creation in 2000. The NMTC was created in 2000 with bipartisan support and is administered by the CDFI Fund at the Department of the Treasury to stimulate economic activity in underserved communities by providing a Federal tax credit for investments in qualified business or economic development projects.

The CDFI Fund allocates tax credit authority through a competitive application process to certified Community Development Entities (CDEs), specialized financial intermediaries with on the ground

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expertise about community needs. CDEs offer tax credits to investors in exchange for equity, which is then used to make loans and investments to businesses operating in distressed areas. The flexible, affordable financing provided to businesses often has more favorable terms and conditions than the market typically offers. Investors, in return, receive a tax credit equal to 39 percent of the total Qualified Equity Investment (QEI) made in that CDE. The credit is realized over a seven-year period: 5 percent annually for the first three years, and 6 percent in years four through seven.

The impact of these credits is substantial: NMTCs have supported the construction of 51 million square feet of manufacturing space, invested in 114 business incubators, supported 529 schools or other education projects, supported nearly 300 grocery stores and fresh food projects, and invested in over 300 Federally Qualified Health Centers. Through those health centers and the over 800 hospitals and other healthcare facilities, over 17.6 million patients have been served by facilities financed with NMTC.

In the recently awarded 2018 allocations, $682 million will be invested in rural areas and over 13 percent of the allocators are Minority CDEs. In addition, every allocatee in the 2018 round of awards have committed to surpassing the regulatory requirement for the minimum percentage of investment in low-income communities, which will result in at least $450 million in investment beyond what is required under the program. This level of commitment demonstrates the value of the program and its effectiveness in the communities it is targeted to serve.

Further, the credit is targeted to reach underserved communities and encourages investment decisions to be made at the community level, allow local decisions making over which projects to finance to have the greatest impact. More than 72 percent of NMTC investments have been in communities exhibiting severe economic distress either with unemployment rates more than 1.5 times the national average, poverty rates of 30 percent or more, or median income levels at or below 60 percent of the area median.

The credit is also an efficient use of federal resources. NMTC provides a return on investment to the federal government, and the federal tax revenue generated by NMTC investments more than pays for the cost of the program. For example, in 2015 the NMTC allocations were used to generate $15.2 billion in economic activity, which resulted in $872 million in Federal tax revenue. This revenue exceeded the cost of the program in that year by $113 million, providing a 15 percent return to the Federal government. In addition to the Federal tax revenue generated, for every $1 invested by the Federal government, the NMTC Program generates over $8 of private investment.

The NMTC program retains broad, bipartisan support in Congress. Senators Roy Blunt (R-MO) and Ben Cardin (D-MD), along with Representatives Terri Sewell (D-AL) and Tom Reed (R-NY), have
introduced The New Markets Tax Credit Extension Act of 2019 (S. 750/ H.R. 1680) to make the NMTC permanent. Together, the bills have garnered over 100 cosponsors between the two chambers. In the Senate, the cosponsors include nine members of the Senate Finance Committee. The legislation will:

- Increase the NMTC allocation to $5 billion and index future allocations to inflation
- Provide NMTC investors with relief from the Alternative Minimum Tax
- Make the NMTC permanent

OFN strongly supports the reauthorization effort and the New Markets Tax Credit Extension Act.

The NMTC Program is an effective, targeted and flexible economic development tool with a proven track record of generating economic activity in underserved communities. OFN urges you to make this important and impactful tax credit permanent. If you have any questions or would like to discuss the NMTC or OFN’s work to bring capital to low-income communities further, please contact me at MSHardwick@ofn.org or by phone at 202.318.0847. Thank you for your work to preserve essential community development tools.

Sincerely,

Mary Scott Hardwick
Senior Associate, Public Policy